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CABINET AFFAIRS STAFFING MEMORANDUMDATE: August 2, 1982 NUMBER: 072834CA DUE BY: --SUBJECT: Fact Sheet of the Mid-Session Review of the 1983 Budget

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Transportation	☐	☐		☐	☐
Energy	☐	☐		☐	☐
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OMB	☐	☐		☐	☐
CIA	☐	☐		☐	☐
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CEA	☐	☐	CCCT/Kass	☐	☐
CEQ	☐	☐	CCEA/Porter	☐	☐
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REMARKS: The attached is forwarded for informaion only.

RETURN TO:

☒ Craig L. Fuller
 Assistant to the President
 for Cabinet Affairs
 456-2823

☐ Becky Norton Dunlop
 Director, Office of
 Cabinet Affairs
 456-2800

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EXECUTIVE OFFICE OF THE PRESIDENT

OFFICE OF MANAGEMENT AND BUDGET

WASHINGTON, D.C. 20503

EMBARGOED FOR RELEASE
UNTIL 3:30 P.M. EDT
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July 30, 1982

FACT SHEET

Mid-Session Review

SUMMARY: The Administration today published its Mid-Session Review, a brief update of budget and economic policy and the second of two updates of the 1983 Budget required by law. The Administration considers its most immediate fiscal priority the successful implementation of the tax measures and the entitlement and other spending reductions provided in the First Budget Resolution passed by Congress. With its heavy emphasis on the policies and underlying economic assumptions of the First Budget Resolution, this review departs somewhat from its traditional form.

I. BACKGROUND:

- o In the budget message published last February the President reaffirmed his commitment to the four-part economic recovery program that was first announced in February 1981.
 - Steadily reduce the rate of growth of Federal spending.
 - Reorder the tax code to generate new incentives for work effort, saving and investment.
 - Simplify and reduce Federal regulations.
 - In cooperation with the Federal Reserve Board, promote a steady and non-inflationary monetary policy.
- o On June 23, 1982, the Congress adopted a First Budget Resolution for FY 1983 consistent with the President's fiscal goals. The targets in that Resolution would reduce the 1983 deficit by \$77 billion, and the 1983-85 deficits by \$378 billion.

II. ECONOMIC UPDATE:

- o After only 18 months in office, the Administration has achieved considerable progress on the economic front.
 - In little more than a year the rate of inflation has been reduced by half, from 12 1/2% in the winter of 1980-81 to about 6 1/2% in the early summer of 1982.
 - The growth rate of Federal spending, which soared to 17.4% in 1980, has declined substantially; to 14% in 1981 and 11% in 1982.
 - The Economic Recovery Tax Act of 1981 reduced personal income tax rates by 5% last October and by 10% this month, with a further 10% reduction to take place July 1, 1983.

- o The recession has bottomed out and the economy is displaying the early signs of improvement that are characteristic of the turning zone of recovery. The combination of lower inflation and reduced tax rates has improved purchasing power and is helping to generate a consumer-led recovery.
 - Real disposable income increased at an annual rate of 3.1% during the second quarter, and real personal consumption expenditures rose by 3.0% in the second quarter, following a 2.5% rise in the first quarter.
 - Real hourly earnings have increased steadily since December, the first such rise in real wages in 3 years.
 - Reflecting the gradual improvement in housing activity, real residential construction investment grew by an annualized 3.1% in the second quarter.
 - Since the bottom in March, the index of leading indicators has increased by 2.2%.
 - Financial market conditions are gradually unwinding. The 3-month Treasury bill rate has been averaging below 11% in recent weeks, compared to a 17% peak in June of last year. The prime rate has dropped to 15 1/2% from a peak of 21 1/2% in December 1980.
 - During the second half of 1982 the economy is expected to grow at about a 4% inflation-adjusted annual rate, with somewhat stronger growth expected next year.

III. BUDGET PRIORITIES:

- o The Administration now considers its most immediate fiscal priority the successful legislative implementation of the tax measures and entitlement and other spending reductions provided in the First Budget Resolution passed by Congress. Fiscal restraint and reduced economic intervention by the Federal Government requires a steady follow-through during the years ahead.
- o Although different in many respects from the Administration's budget presented last February, the First Budget Resolution is consistent with the general thrust of Administration economic policy, particularly the commitment to sustained deficit reduction during the 1983-85 period as a means of strengthening prospects for steady interest rate reduction and sustained economic growth.
- o While accepting the \$8.6 billion in FY 1983 defense function outlay reductions provided in the First Budget Resolution, the President reserves the right to propose alternative ways of reaching the assumed deficit levels for FY 1984 and beyond. The specific ways to achieve these reduced deficit levels will be determined in the normal budget cycle process.

IV. BUDGET HIGHLIGHTS:

The table below presents the long-range budget outlook. These totals are based on economic assumptions that generally conform to the estimates in the First Budget Resolution. This does not constitute Administration endorsement of these estimates as forecasts or as economic policy objectives. They are used instead to facilitate enactment of the vital deficit reduction measures now before the Congress.

The Budget Outlook, 1981-1987
(in billions of dollars)

	Actual 1981	Estimate					
		1982	1983	1984	1985	1986	1987
Receipts	599.3	622.1	646.5	719.9	801.1	867.1	937.5
Outlays	657.2	731.0	761.5	812.5	874.7	932.7	996.0
Surplus or deficit (-) ..	-57.9	-108.9	-115.0	-92.6	-73.6	-65.6	-58.5

Addendum:
Percent of GNP

Receipts ...	21.0	20.5	19.3	19.4	19.6	19.3	19.2
Outlays ...	23.0	24.1	22.8	21.9	21.4	20.8	20.4

- o The Budget Resolution conference report adopted deficit reductions of \$77 billion in 1983, \$131 billion in 1984 and \$171 billion in 1985, for a total of \$378 billion in deficit reduction measures over the 3-year period.
- o Three-fourths of the deficit reduction package, or \$280 billion, will be achieved by spending reductions and debt service savings. About \$66 billion of the total savings will occur in entitlements and discretionary programs, and another \$26 billion will come from reduced costs for Federal pay.
- o When these spending cuts are implemented, the outlay share of GNP is projected to decline from 24.1% in 1982 to 21.4% by 1985.
- o Implementation of the Resolution would lower the rate of growth of Federal spending from 11.2% in 1982 to 7.6% by 1985, consistent with Administration objectives as first published in February 1981.

- o The tax portion of the First Budget Resolution, as reflected in the Senate Finance Committee bill, will strengthen receipts by \$22 billion in 1983, \$35 billion in 1984 and \$43 billion by 1985, for a total of \$100 billion over the 3-year period. The tax provisions focus on improvement in taxpayer compliance, the removal of obsolete incentives, and the elimination of unintended loopholes. More than three-fourths of the increased receipts will come from increased compliance and from measures that broaden the tax base. The tax bill preserves the individual rate reduction and the indexation provision enacted last year. In addition, the tax bill preserves a large part of the Administration's original business depreciation proposal.
- o With passage of all the elements of the 1983 budget package, the projected deficit as a proportion of GNP will decline from 3.6% in 1982 to 1.8% by 1985.